



# Market Outlook 2010

For this annual feature, Financier Worldwide has again gathered the opinions of the corporate advisory and dealmaking community to explore their insights into current and emerging trends as we enter the new year.

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CAPITAL MARKETS

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►STAGNATE WATERS: PROCEED WITH CAUTION

As anticipated, 2009 was a very tough year for everyone other than those of us in the insolvency and distressed company advisory business. Despite tremendous government intervention in the US, UK, EU and Asian marketplaces by central banks in the form of stimulus packages and bailouts, the impact of the recession on middle market businesses and on Main Street remains troublesome. Despite large gains in the equity markets from the lows of March 2009 and historic highs in certain commodities such as gold, the business environment for middle market companies remains challenging.

Senior and second-lien loan volume were at historic lows in 2009 and we predict that 2010 volume for senior loans, especially asset-based facilities, will improve. There will be tougher underwriting standards, closer scrutiny of collateral coverage and higher risk adjusted pricing on these loans. For second-lien loans, 2010 should remain weak with no real recovery.

As a result of a non-existent credit market in the last quarter of 2008 and very tight credit lending throughout 2009, healthy middle market M&A volume in 2009 was severely depressed. Without leveraged loans from lenders, the private equity community largely sat on the sidelines in 2009 and focused on closely managing their existing portfolio companies rather than investing in new ones. While leveraged loans should grow in 2010 as lenders continue to shore up their balance sheets, the average equity investment needed to complete a leveraged buyout is now well over 40 percent, reducing the return on investment to the equity investor. There will be increased competition between private equity firms for healthy M&A transactions in 2010 with more equity invested than in 2009, but still at significantly reduced numbers compared to the 2001-2003 period. The boom years of middle market M&A seen from 2004 to Q1 2008 are not coming back in 2010.

The surprise in the capital markets for 2009 and continuing into the first half of 2010 is the resurgence of high yield bonds by below investment grade issuers. While this has been a phenomenon of the upper middle and large cap markets, there is no indication that high yield bonds will help middle market and lower middle market distressed companies.

It is not surprising that in the first three quarters of 2009 over 45,000 businesses filed for bankruptcy in the US, with more filings in the Q4 – which won't be tabulated until the Q1 2010. The question is whether this volume of bankruptcies will continue into 2010. The answer is likely yes, as 2010 will not cure the ills of distressed middle market companies. Top line revenue for these companies will not revert to pre-recession levels and debt capital will continue to be difficult to secure for companies already suffering from squeezed liquidity. Additionally, high multiple M&A options will not be present. The result: 2010 will bring a large number of bankruptcies with most ending in Section 363 sales or liquidations and others with plans converting the debt of the lender group into equity.

We predict that 2010 will be a slow recovery period with minor growth in real GDP and continued high unemployment. The challenges for distressed middle market companies in search of higher top line revenue, higher margins, reduced expenses and access to capital will remain. Advisers in these special situations will continue to have another robust year. ■

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J. Scott Victor is a founding partner and Managing Director of SSG Capital Advisors, LLC, a leading boutique middle market special situations investment banking firm with offices outside of Philadelphia, PA and in New York, NY. Prior to reacquiring SSG from National City/PNC in May, 2009, he was Senior Managing Director and Co-Head of the Special Situations Group of National City Investment Banking which acquired SSG in August, 2006. Prior to his transition to investment banking in 2000, he was a partner at Saul Ewing, LLP and a senior member of its Bankruptcy and Reorganization Department.

With over 25 years of experience in representing companies in Chapter 11 proceedings, workouts and restructurings, Mr. Victor is an expert in the restructuring, refinancing and sale of distressed middle-market companies. As a Managing Director of SSG, he provides investment banking services focusing on the sale, turnaround financing, restructuring and complex valuation of middle-market companies facing operational and/or financial challenges both in and out of Chapter 11 proceedings throughout the U.S. and Europe. His clients are both public traded, privately held, private equity sponsored and family owned companies in almost every industry.

Mr. Victor has lead or participated in well over 150 sale, refinancing and restructuring assignments for distressed middle-market companies both in and outside of Chapter 11 proceedings and has testified as an expert in numerous Bankruptcy Courts across the U.S. He has given more than 100 presentations around the U.S. and Europe on Bankruptcy and Insolvency Law, Distressed M&A and Turnaround Financing issues for organizations such as the National Conference of Bankruptcy Judges, the American College of Bankruptcy, the American Bankruptcy Institute, Turnaround Management Association, Association of Insolvency and Restructuring Advisors, VALCON, Association of Corporate Growth, Wharton School of the University of Pennsylvania, Pennsylvania Bar Institute, Philadelphia Bar Education Center, Eastern District of Pennsylvania Bankruptcy Conference, Southern District of Florida Bankruptcy Bar Association, New York Business Forum, Strategic Research Institute, Institute for International Research, Financial Research Associates, New York Institute of Credit and New York Capital Roundtable.

Mr. Victor is a Fellow of the American College of Bankruptcy. He is also an active member of the American Bankruptcy Institute – member of the Board of Directors, 2007-2010 Co-Chair of the Investment

Banking Committee, Board of Advisors for the 2007-2010 ABI Mid-Atlantic Bankruptcy Conference, Board of Advisors for the 2006-2010 Complex Financial Restructuring Conference, the Advisory Board of VALCON 2008-2010, Turnaround Management Association – past President and immediate past Chairman of the Philadelphia Chapter, a member of the Executive Committee and Board of Directors of TMA International and serves as 2010 Vice President of Chapter Relations and served as 2007 Vice President of Conferences, the Eastern District of Pennsylvania Bankruptcy Conference – Steering Committee 2006-2007, Association of Insolvency and Restructuring Advisors, Association for Corporate Growth, Philadelphia Bar Association, Pennsylvania Bar Association and American Bar Association. Scott is a former President and a member of the Executive Committee and Board of Directors of the Consumer Bankruptcy Assistance Project, a member of the Board of Trustees of the Cardiovascular Institute of Philadelphia, a member of the Hamilton Circle and former member of the Board of Trustees of the Philadelphia Bar Foundation

**Education:**

- University of Pennsylvania, B.A.
- University of Miami School of Law, J.D.



**INVESTMENT BANKING | SPECIAL SITUATIONS**

<p><b>The Philadelphia Inquirer</b></p>  <p>Sale Monitor</p>	 <p>Advanced Communications Incorporated</p> <p>\$28 Million Senior Secured Facility</p>	 <p>\$34 Million Refinancing and Restructuring</p>	 <p>Ritz Camera Centers, Inc.</p> <p>has been acquired by RCI Acquisition, LLC</p>
 <p>has sold substantially all of its assets to an affiliate of</p> 	 <p>Bruno's Supermarkets, LLC</p> <p>has sold substantially all of its assets to</p>  <p>Southern Family Markets Acquisition II, LLC</p>	 <p>has been acquired by BLF Acquisitions, Inc.</p>	<p><b>Craftex Mills</b></p> <p>has sold substantially all of its assets to</p>  <p>Victor Innovatex, Inc.</p>

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